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SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 07/31/07

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ARTICLES:

(1) Prime Minister Abe expresses "regret" about passed House resolution

MAINICHI (Page 1) (Full)
Eve., July 31, 2007

Prime Minister Abe this morning made this statement to the press corps at his official residence about the US House of Representatives having passed a resolution on the so-called "comfort-women" issue: "With regard to this issue, I explained my thinking and the government's responses until now at the time of my visit to the United States in April. I regret the passage of the resolution. I think it is important for us to continue to explain ourselves from now on. The twentieth century was an era when human rights were violated. I would like to work so that the twenty-first century will be a time when human rights will no longer be violated."

(2) In response to US House approval for comfort-women resolution, Prime Minister Abe: "I'll continue efforts to explain"

ASAHI ONLINE NEWS
July 31, 2007, at 13:56 p.m.

At noon today, when asked about the US House of Representatives having approved a resolution on the wartime "comfort women," Prime Minister Abe said: "When I visited the United States in April, I gave an account of my views and the government's response (to the "comfort women" issue). It's regrettable to see this sort of resolution approved." He continued, "I think it is important to explain fully to the US side about the issue from now on as well," indicating his intention to continue his efforts to do so. Abe was

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replying to reporters at his official residence (Kantei).

(3) DPJ President Ozawa comes out against the amendment to the Anti-terror Law in appearance at meeting of party officials

ASAHI.COM (Full)
July 31, 2007

Democratic Party of Japan (DPJ or Minshuto) President Ozawa today expressed his opposition to the government bill amending the Anti-Terrorism Special Measures Law, which allows the Self-Defense Forces (SDF) to provide logistical support for US warships deployed to the Indian Ocean. The bill will be the focus of attention in the extraordinary Diet session this fall. Ozawa said: "Our views are the same as before. Since we have been opposed to it, there is no reason for us to now approve it." Ozawa's strategy is to press the Abe administration for an early dissolution of the Lower House and the holding of a general election by shaking up the government and parties by steering the Upper House of the Diet toward an early dissolution.

He was speaking to reporters at the party headquarters.

Ozawa, who had been resting at home due to fatigue from his campaigning for the election, today appeared at the party officials meeting and at a standing secretaries' general meeting. This was the first time he has been seen since the Upper House election on July 29. At the start of the standing secretaries' general meeting, he expressed his view about carrying out a change in administration through dissolution of the Lower House and a general election: "We have achieved the first goal in our drive to bring about a trading of places between the ruling and opposition camps. However, the real contest begins now. We will make the Upper House into a real battleground in the Diet starting this fall. I would all of you to do your best to reach that final goal."

Referring to Prime Minister Abe's announcement that he would stay on in office, Ozawa stressed: "For the cabinet to stay on even after losing the majority (in the Upper House) is absolutely absurd. He will never be able to obtain the nation's support for such a willful and preposterous act." "Since a trading of places of ruling and

opposition camps is now possible, that nuisance will only be with us in the Nagata-cho capitol district a little while longer."

(4) It will be extremely difficult for ruling, opposition parties to reach agreement on pension system reform; Pension policy could bog down; Three barriers to clear before setting up consultative council

MAINICHI (Page 2) (Full)
July 31, 2007

Voters' distrust in the government over the pension fiasco brought about a crushing defeat for the ruling parties in the Upper House election. Prime Minister Shinzo Abe after the election indicated his readiness to take the Democratic Party of Japan's (DPJ or Minshuto) view into consideration in setting policies. However, it will be extremely difficult for the ruling parties and the DPJ to find common ground, because they are at odds over fundamental aspects of the issue. A senior ruling party member during the election campaign proposed setting up a consultative council involving both the opposition and ruling parties. However, given the present situation,

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it is doubtful they will be able to realize such an initiative. If the proposal ends up as a mere gesture aimed at the electorate, the pension policy could continue to meander, despite the will of the people shown in the election. This newspaper has identified three barriers to settling the pension issue.

Unification of public pension plans

Appearing on a TV program right after all votes were counted, Abe on July 29 said, "I will lend an ear to the views of opposition parties as well." During a press conference on July 30, he cited the name of bills that he wanted to see enacted in the extraordinary Diet session in the fall, but he did not include the legislation for unifying the public pension programs that was carried over from the regular Diet session to the next session.

The pension legislation is aimed at combining part of employees' pension plan and part of the mutual aid pension. The idea is incompatible with the DPJ's plan, which features the integration of all pension programs, including the national pension plan. It will, therefore, be difficult to enter deliberations based on their draft plans.

The ruling parties have scathingly attacked the DPJ plan as pie in the sky. That is because it is difficult to determine the income of contributors to the national pension plan, a process necessary to work out pension premiums, because contributors to this pension plan are mainly self-employed individuals. In order to settle this issue, it is necessary to make their income transparent as is the case of salaried workers, adopting such systems as a taxpayer identification number system. However, since self-employed workers are the ruling parties' power base, they cannot easily agree to adopt such a system.

The government plan includes a proposal for unifying the premium rates of the employees' pension plan and the mutual aid pension starting in 2010. Deliberations will fall behind the schedule, if they are stalled.

Source of revenue to finance basic pension

A set of bills to reform the pension system, enacted in 2004, stipulate that the ratio of state contribution to the basic pension is to be raised from the current one-third to 50% in fiscal 2009. There is tacit understanding between the government and the ruling parties that the increased portion of contribution is to be covered with a hike in the consumption tax, though the bills do not mention funding resources amounting to 5 trillion yen. However, the DPJ's policy is to freeze the tax rate. Conditions have yet to be met in order for the government to come up with a tax hike plan.

The current system is based on the premise that state contribution is to be increased in fiscal 2009. The further the time to raise the

contribution ratio to 50% is delayed, the nearer the pension finances will approach collapse. As such, if it is not possible to hike the consumption tax, ruling parties will have to find another source of revenue.

Social Insurance Agency reform bill

The DPJ is determined to introduce a bill that bans the use of collected funds for purposes other than pension benefit payouts. A

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serious discussion of this bill would lead to an amendment to bills related to reform the Social Insurance Agency (SIA) reform, which allow the allocation of 100 billion yen in insurance money to administrative expenses, necessitating revising a proposal for making the SIA staff non-government employees. This bill reflects the will of the Finance Ministry, which hopes to constrain the tax burden. As such, if the issue develops into a revision argument, the ministry is bound to oppose such a proposal.

To begin with, the ruling parties and the DPJ are at loggerheads over the basic principle of whether to use insurance funds to finance the basic portion of the national pension plan or to cover the full amount with tax money. Regarding the establishment of a consultative council with the ruling parties, the DPJ makes it a precondition that its proposals be accepted. However, the ruling parties do not appear to be ready to accept the DPJ's proposal at the moment.

(5) Governing coalition's crushing defeat in Upper House election (Part 1): Political mission is to implement reform for growth

NIHON KEIZAI (Page 1) (Abridged)
July 3, 2007

Naoaki Okabe

Why did the administration led by Prime Minister Shinzo Abe stumble so badly? The public's distrust of the administration grew stronger over the question of missing records of pension premium payments and a string of cabinet-minister scandals. There was more. The Abe administration apparently gave an impression that it had flinched and turned reluctant to carry out the reforms it was supposed to. I think the Upper House election posed this question: What is Japan expected to do in the drastically changing global society?

Not match for "Koizumi"

Abe was beaten by Ichiro Ozawa, head of the major opposition Democratic Party of Japan (DPJ or Minshuto), and he also proved that he certainly was no Junichiro Koizumi.

Abe emerged as the successor to lead Koizumi's structural reform drive. In the post-Cold War era of global competition, Japan is falling behind other countries. Still worse, Japan has the worst budget deficit among the industrialized countries, as it suffers from a rapidly aging society and a declining birthrate. Under these circumstances, Abe had been charged with the historic mission of accelerating reforms.

Despite that situation, the Abe administration has remained ambivalent in its attitude when it came to reform, lacking a strategic challenge like the privatization of postal services that Koizumi promoted. It lacked a strong determination to implement reform.

The Abe administration's ambiguous attitude has incurred the mistrust of voters in both rural and urban areas. Abe is suspected to be backpedaling on his reform drive. On the other hand, his "reform policy" is cited as the cause of an expanding regional income disparity. Abe's stinging defeat in Sunday's Upper House election was essentially attributable to a lack of perseverance in his economic policy.

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There is concern that economic policy management will not go smoothly with the reverse of the standings in the Upper House between the ruling and opposition parties. But no matter what party is in control of the government, Japan has no choice but to live in a world of interdependence as globalization is advancing. Policy options for Japan are therefore limited.

What is Japan expected to do now is to implement the so-called "trinity reform": the pension system, the tax and financial systems, and the growth strategy. Cross-party debate on these reforms is essential.

On the reform of the tax and financial systems, the Abe administration has prioritized cutting annual expenditures. This stance is correct, but in order to keep the pension and social welfare system going, reform of the tax system is indispensable.

The reason why the so-called Koizumi reform did not make a dramatic progress is because the reform of the tax system was put on the back-burner. The past historic reform-oriented administrations in the world like the one led by British Prime Minister Thatcher and the one by US President Reagan put the reform of the tax system at the center of their reform drives. Considering the current situation in Japan, where the population is aging and the birthrate is declining, hiking the consumption tax is an unavoidable choice and lowering the corporate tax will also be necessary in terms of global mega-competition.

Likewise, it is important how to link the growth strategy to global mega competition. The key is how well to adapt the Japanese economy to the rapidly growing global economy. The core of this strategy is to integrate the East Asian economies and attract foreign firms to Japan. Japan should continue efforts to turn the Tokyo market into an international financial center. "No growth without opening the doors" is common knowledge about global economy.

Regional economies at home have faced a number of difficult problems. But Japan should not revert to pork-barrel spending for public works projects. And protecting farmers in an easy-going manner could only spoil agricultural reform. Japan should promote the decentralization of power even further, for instance, by transferring tax resources to local governments. Getting out of dependence on the central government and bolstered by the decentralization of power, local governments should work on attracting firms and create jobs. This would be the shortest way for revitalizing regional economies.

Inward-looking Japan

One aspect of the aftermath of the Upper House election would be that Japan has become an inward-looking country without realizing it.

In a multipolar world, Japan, the second largest economy in the world, is expected to undertake a significant role. In the area of preventing global warming, Japan, along with the European Union (EU), should lead the rest of the world. Under the World Trade Organization (WTO), Japan must contribute to the multilateral trade talks (Doha Round). Japan needs to move in tandem with the US and Europe in addressing nuclear nonproliferation involving North Korea and Iran. As the only country that has suffered nuclear attacks in

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the world, Japan, regardless of its ruling and opposition parties, is responsible to the international community for calling on the rest of the world to abandon nuclear weapons.

It is unacceptable to let political disputes endanger the Japanese economy, particularly at a time when slumping stock prices and the weakening yen are continuing. There is even the possibility that excessive fluidity caused by Japan's ultra-low interest rates will trigger a crisis.

What is dangerous is the case where the ruling and opposition

parties begin a competition to capture votes with their respective policies. The DPJ is now required to have the consciousness of being a responsible opposition party. In order for Japan to survive in the global economy, both sides need to compete for better reform policies. Japan is in this sense being tested as to whether it is worthy of international trust.

(6) Editorial: People dumbfounded by prime minister's announcement on remaining in power

ASAHI (Page 3) (Full)
July 31, 2007

Shinzo Abe officially announced that he will stay on as prime minister yesterday, the day after the House of Councillors election on July 29. In a Liberal Democratic Party executive meeting and a meeting with New Komeito President Ota, Abe obtained their concurrences for his remaining in office. But what about the "no" clearly expressed by the voters to him? In a press conference yesterday, the prime minister said: "I take the people's severe judgment with gravity and sincerity. While reflecting on what I should reflect on, I will perform my responsibility in a modest manner by pushing ahead with reform and state-building plans."

Has the prime minister interpreted the outcome of the election not as a no-confidence motion against him but as a scolding by the public? If so, the prime minister does not correctly understand the weight of the LDP's historic major defeat in the election.

In the election, the LDP won only 37 seats, while the Democratic Party of Japan (DPJ or Minshuto) garnered 60 seats. In addition, an exit poll carried out by the Asahi Shimbun found 56% called for the prime minister's resignation. Even among supporters of the LDP, one out of four voted for the DPJ in the proportional representation segment.

The prime minister himself had regarded the latest election as an occasion to "ask the voters which are more qualified to be prime minister - I or Ozawa."

When asked about this point in the press conference, the prime minister dodged the question. Instead, he revealed plans to change the lineup of party executives and cabinet members, saying: "I think the election result represents a public call for us to change our minds." That is a quite convenient way of thinking for him.

Politicians should take responsibility for negative results by resigning from their posts. The people must be disappointed at the leader's stance of avoiding responsibility for the crushing electoral defeat. It is unlikely that people will easily dismiss their doubt and distrust of the prime minister's stance of holding

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on to power.

Regarding the future course of the prime minister, LDP influential members have made unexpected responses. In such a case in the past, many LDP members called for the prime minister's resignation. In the Upper House election in 1989, in which the LDP won only 36 seats, the Prime Minister Uno stepped down. In the 1998 election, in which only 44 seats went to the LDP, Prime Minister Hashimoto resigned.

Such responses are to reflect a tense atmosphere in the party, which has assumed the reins of government over the past 50 years, and that was indisputably the source of vitality for the party. This case, though, the following passive views are heard among influential LDP members: "There is no able personnel;" "The prime minister himself should make a decision;" and "he should stay on for the time being."

It is hard to understand that the New Komeito easily approved Abe's staying in power. The party, which experienced a major defeat as a result of being affected by the headwind against the LDP, should consider whether responsibility lies, including future options for the current coalition arrangement with the LDP.

The prime minister spoke of tasks his cabinet will tackle now, such as expansion-oriented economic policy, correction of social disparities, and new measures to deal with politics-and-money problems. But the prime minister has yet to ask for public confidence, a factor indispensable for him to promote such policy measures.

If he is willing to remain in office, he should dissolve the House of Representatives for a snap election as soon as possible to seek the voters' judgment.

(7) Interview with University of Tokyo Professor Ikuo Kabashima on results of July 29 House of Councillors election - a vote of no confidence in Abe

ASAHI (Page 4) (Abridged slightly)
July 31, 2007

-- What made the Liberal Democratic Party suffer such a huge setback?

Kabashima: Single-seat constituencies held the key. Former Prime Minister Koizumi had destroyed the LDP's traditional system of distributing to rural areas the fruits of economic development in the form of public works projects and the protection of farm produce, and the voters handed down their negative evaluation of it to Prime Minister Abe through this election. Changes to the LDP system led to its defeats in single-seat constituencies, which have been supportive of the party.

Abe had tilted toward the traditional LDP system rather than toward market principles, but now that he has become Koizumi's successor, he needed to advocate reform and seek support in urban areas. In the eyes of urban voters, Abe's reform drive was insufficient as compared to Koizumi's, and to the rural areas it seemed the same as Koizumi's. Abe has thus lost the support of both sides. In addition to these developments, the LDP was directly hit by the pension fiasco, the question of money and politics, and other scandals.

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-- What is the cause of the overwhelming victory by the Democratic Party of Japan?

Kabashima: The DPJ's victory owes much to party head Ichiro Ozawa's strategy of putting high priority on single-seat constituencies and of sending a direct message that the party will introduce an income-subsidy system for farmers. He has wrestled the farm votes from Abe. Ozawa used to be as reform-minded as Koizumi was, but he has thrown that away in order to become a true DPJ president. Furthermore, the DPJ now has many competent individuals, like Akira Nagatsuma, who scrutinized the pension fiasco, enabling the party to fulfill its role to closely check problems associated with the ruling parties. That has resulted in a nationwide trend to break away from the LDP.

-- Do you see any change in voter behavior?

Kabashima: Voter turnout did not drop, which was significant. Voter turnout has in the past been low in the year of the boar (in the Chinese zodiac), but that didn't happen in this election partly because swing voters in cities came out in force.

As a result, the New Komeito and LDP's organizational votes were diluted. What was interesting was the case of Masako Okawara, who ran in the Tokyo constituency on the DPJ ticket. Various opinion polls had indicated that she was on the borderline, but she eventually claimed the top place in the race. This indicates voters' strategic behavior to get the two DPJ candidates elected. The same behavior was observed in other constituencies, as well. In addition to unaffiliated voters, some JCP and SDP supporters also showed the same pattern.

-- Does that mean many voters acted in a way distinct from the past?

Kabashima: An increasing number of swing voters are paying attention to situational surveys without being bound by traditional organizations. During the LDP vs. Japan Socialist Party era, voters' psychology not to allow the JSP to take power worked. Okawara's case clearly depicted the voters' logic that in order for the DPJ to switch place with the LDP, the opposition party needed to have more than a small margin. The results mirror the voters' desire to see the LDP's defeat.

-- How should the political parties take this public opinion?

Kabashima: An Upper House election tends to reflect voters' assessment of the administration's achievements. The voter-candidate relationship in the Upper House is weaker than that in the Lower House, as well. That is why Upper House election results tend to directly mirror voters' assessments of party heads and parties. That being said, the outcome of this election is nothing but a no-confidence vote against Abe.

-- But Prime Minister Abe has indicated that he will stay in office.

Kabashima: Based on his views on the Constitution and the abduction issue, many people had regarded Abe as a "politician with conviction." But his announcement has generated an image of clinging to power. The images of party heads have greatly affected the results of national elections in recent years. Abe had been picked

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as the LDP's "election face" at relatively young age, but he failed to fulfill that role. The LDP that has endorsed Abe's decision clearly lacks vigor.

The results exposed the New Komeito's weakness of sinking into insignificance with high voter turnout. The outcome also raised the question of how long the New Komeito is going to remain as the LDP's coalition partner with no ability to have a deciding vote.

-- How should the DPJ act?

Kabashima: Turning public opinion expressed in this election into support for the DPJ depends on whether or not it can wisely run the Upper House. In other words, it depends on whether or not the DPJ can translate its campaign pledges, including fiscal promises, into concrete bills in the Upper House to present them to the Lower House. A culmination of such efforts would prompt voters to decide to allow the DPJ to take power through the next Lower House election.

(8) Editorial: Prime Minister Abe has misunderstood public will

MAINICHI (Page 5) (Full)
July 31, 2007

In the July 29 House of Councillors election, the Liberal Democratic Party (LDP) suffered a crushing defeat. In a press conference held the day after the election, Prime Minister Shinzo Abe revealed his intention to stay on as prime minister.

The prime minister repeatedly said, "The responsibility rests with me," but he emphasized: "Many people appreciate the government's basic policy line, which is on the right track." If he really has such a perception, he apparently misunderstands the will of the people.

As the points he should reflect on, he listed the government's responses to the pension problem and the politics-and-money issue. On the pension mess, he said: "Our efforts to eliminate public distrust of the pension system were insufficient." The prime minister had been ignorant of the seriousness of the problem until he saw his cabinet support rate sharply plummet, despite repeated indications by the Democratic Party of Japan (DPJ or Minshuto). The prime minister must modestly reflect on this fact; otherwise, he will never be able to regain public confidence.

In connection with a series of politics-and-money scandals, as well,

although the prime minister said he instructed the LDP to revise the Political Funds Control Law, a number of people had criticized the revised version enacted in the latest Diet session as a law full of loopholes. People must be feeling that the prime minister's reference now is late.

The prime minister also said that the people are supportive of his basic policy, that is, his economic expansion policy. Asked why he believes the policy has been supported, Abe replied: "I felt audiences' positive reactions (when delivering street-corner speeches)." We wonder if he really understands what an election is.

Further, the prime minister did not refer to whether the public supported his "beautiful country" concept, including his important task of revising the Constitution, as well as the slogan of

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"emerging from the postwar regime," only saying: "There was no time to speak of constitutional issues in detail in the election campaign." This is a very convenient way to interpret it, we must say.

The prime minister labels constitutional revision as the challenge his cabinet should address on a top priority basis. He must find it more difficult to amend the Constitution after experiencing the devastating defeat in the latest election. If he continues to refuse to recognize the current severe situation, he will not be able to push ahead with Diet business even if he proposes cooperation with the DPJ.

Prime Minister Abe has also revealed plans to significantly reshuffle his cabinet, saying: "The election outcome represents a public call for us to change our minds." But as long as the prime minister maintains his current perception and stance, the public will never stop calling on the prime minister and others to change their mentality.

Despite such circumstances, the LDP in its board meeting yesterday decided to have the prime minister stay in power. In the meeting, many members of various factions remained quiet, with few calling on the prime minister to take responsibility. Even if the prime minister is replaced, the state of the reversal of strengths between the ruling and opposition parties will not change. It is also difficult to find a successor who can be expected to turn the tables.

The LDP has done little about developing potential candidates for the party presidency. The LDP is now forced with the bill for that. The current situation is quite serious.

SCHIEFFER